

## Message Text

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ACTION SS-25

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 7368

C O N F I D E N T I A L LIMA 8875

EXDIS

FOR DELIVERY OPENING OF BUSINESS SATURDAY MORNING

FOR ARA - WILLIAM ROGERS; L - MONROE LEIGH; EB - THOMAS ENDERS;

S/P - WINSTON LORD; TREASURY - JOHN BUSHNELL

E.O. 11652: GDS

TAGS: EINV, EIND, PFOR, PE

SUBJ: MARCONA - FRIDAY AFTERNOON MEETING WITH PRIME

MINISTER ET AL

1. AMBASSADOR AND WASHINGTON TEAM MET THIS AFTERNOON WITH PRIME MINISTER VARGAS PRIETO (WHO WAS ACCOMPANIED BY FOREIGN MINISTER DE LA FLOR, FINANCE MINISTER LUIS BARUA, AND COMMERCE MINISTER ARIAS GRAZIANI) TO INFORM HIM OF STATUS OF DISCUSSIONS AND IMPRESS UPON HIM THAT WITHOUT A RAPID SETTLEMENT THE MARCONA CASE WOULD INEVITABLY LEAD TO CONFRONTATION HARMFUL TO BOTH COUNTRIES. AGREEMENT WAS REACHED THAT WASHINGTON TEAM WOULD RETURN IN TEN DAYS TO ASSESS PROGRESS GOP COMMISSION HAS MADE TOWARD DEVISING A MORE ACCEPTABLE FIGURE. IT WAS ALSO AGREED THAT AS INDICATORS OF MUTUAL GOOD FAITH IN THE INTERIM, THE GOP WOULD ENSURE THAT NO NEW LOAN PROPOSALS COME UP FOR APPROVAL BEFORE THE BOARDS OF THE IFI'S OR THE EXIMBANK, AND THAT THE U.S. WOULD NOT ACT TO REMOVE PERU FROM GSP ELIGIBILITY LIST.

2. FISHLOW BEGAN BY POINTING OUT THAT THREE COMMISSION MEETINGS IN THREE DAYS, IN THEMSELVES A SIGN OF PROGRESS, HAD NONETHELESS REVEALED SERIOUS DIFFERENCES ON BOTH METHOD AND

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VALUATION OF MARCONA'S ASSETS. HE HOPED TO CONTINUE THE

DIALOGUE TOWARD A PROMPT SOLUTION SATISFACTORY TO BOTH GOVERNMENTS AS WELL AS THE COMPANY. BUT IT MUST BE CLEAR THE USG IS NOT IN A POSITION TO FORCE A SETTLEMENT ON THE COMPANY. AFTER OUTLINING CURRENT SITUATION, FISHLOW REMINDED MINISTERS THAT DECLARING PERU INELIGIBLE FOR GSP WOULD ALSO TRIGGER NEGATIVE VOTES IN IFI'S. BECAUSE WE WERE SO WIDE APART, WE NEEDED CONCRETE INDICATIONS THAT PERU WAS NEGOTIATING IN GOOD FAITH TOWARD A PROMPT, ADEQUATE AND EFFECTIVE SETTLEMENT. THE TRIGGERING OF U.S. LAW WOULD NOT HELP EITHER COUNTRY AND IT WOULD CERTAINLY CURTAIL THE FLOW OF FOREIGN CAPITAL TO PERU.

3. THE U.S. TEAM THEN PROPOSED THAT: (A) TEAM WOULD RETURN IN TEN DAYS TO ASSESS PROGRESS GOP COMMISSION HAD MADE IN INTERIM, (B) DURING THAT PERIOD, WE WOULD NOT TAKE PERU OFF THE GSP LIST, PROVIDED (C) THE GOP WOULD KEEP THEIR LOANS FROM COMING BEFORE THE BOARDS OF THE IFI'S, THEREBY DEMONSTRATING SERIOUSNESS OF GOP DESIRE TO AVOID CONFRONTATION.

4. THE PRIME MINISTER ANSWERED THAT HE UNDERSTOOD PERFECTLY THE U.S. POSITION. HE VIEWED TEAM'S VISIT AS VERY IMPORTANT, FOR HE HOPED THAT IT HAD ENABLED TEAM TO SEE THE REVOLUTIONARY PROCESS FIRSTHAND AND TO UNDERSTAND IN PARTICULAR THAT UNDER NEW PRESIDENT CURRENT SECOND PHASE OF THE REVOLUTION SOUGHT TO CORRECT PREVIOUS IMBALANCES AND TO MAINTAIN GOOD RELATIONS ESPECIALLY WITH LARGE COUNTRIES LIKE THE U.S. HE WENT ON TO STATE THAT SOLUTION OF MARCONA PROBLEM WOULD BE VERY DIFFICULT BECAUSE DOMESTIC RADICALS SAW THE MARCONA ISSUE AS A TEST OF REVOLUTIONARY CONTINUITY.

5. THE PRIME MINISTER CONCLUDED, HOWEVER, THAT GOP WAS DETERMINED TO REACH EQUITABLE SOLUTION. GOP THEREFORE WOULD AGREE TO KEEP LOANS IN THE IFI'S OFF THE BOARD AGENDA. THE FINANCE MINISTER AGREED HE COULD LIVE WITH THIS ARRANGEMENT FOR A SHORT PERIOD OF TIME, AND WAS SUPPORTED BY THE FOREIGN MINISTER, WHO EMPHASIZED IMPORTANCE OF THIS ACT IN LIGHT OF "U.S. POLITICAL PROCESS."

6. FINALLY, PRIME MINISTER COMMENTED THAT HE HAD LIED TO PRESS WHEN HE HAD SAID HE HAD NOT KNOWN OF TEAM VISIT, AND CONFIDENTIAL

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ASKED WHETHER U.S. TEAM HAD ANY OBJECTIONS TO HIS RECTIFYING THIS BY STATING WE HAD INDEED BEEN PRESENT. NO OBJECTIONS WERE RAISED, AND THE MEETING ADJOURNED.

7. COMMENT: THE GOP AT THE HIGHEST LEVELS UNDERSTANDS NEED TO MOVE QUICKLY TO SETTLE THE MARCONA PROBLEM. WE WILL KNOW IN TEN DAYS WHETHER THESE INITIAL EFFORTS WILL LEAD TO POSITIVE RESULTS. IN THE MEANTIME WE HAVE AVOIDED A CONFRON-

TATION, AND HIGH-LEVEL INTEREST DEMONSTRATED BY GOP CERTAINLY  
IMPROVES CHANCES OF A MUTUALLY-ACCEPTABLE SOLUTION, ALTHOUGH  
MUCH FURTHER WORK REMAINS FOR BOTH SIDES.

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